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THE EURO AND CORPORATE STRATEGY. REFLECTIONS ON THE IMPACT OF THE SINGLE CURRENCY OF THE STRATEGIES OF NON-FINANCIAL COMPANIES

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Newspapers and journals have been crowded with stories of mergers, acquisitions and company restructurings that have taken place in the wake of the introduction of the Euro. Europhoria is running high and it seems that the time has come to prepare for a return to the economic and business reality. While in the UK the debate on the sense and the non-sense of joining the Euro is still in full swing, on the continent the question to ask has now changed from 'do we want a single currency' and 'how do we introduce it' to 'what should we do with the single currency' and 'what does it mean for our company strategy, really'.

According to a recent report, 80% of financial and retail companies believe that there will be *some* effect of the Euro on their business[1]. Most of this type of studies have focused on the technical aspects of the Euro : have the systems been adapted to the single currency? Can the accounting department handle billing in Euro in stead of marks or francs? Can financials be managed in Euros? On various occasions, researchers have also assessed the degree of readiness of companies, institutions and governments to these technical aspects. During a recent seminar, a survey revealed that while 77% of the organizations surveyed for this study claimed to understand fully the implications of the Euro introduction[2], one should still wonder what these implications will be, particularly those of a strategic nature.

These have been less studied so far, eclipsed by all the concerns about the operational change-over. What does the Euro mean for corporate strategies, and particularly for the European strategies and organizations of multinational corporations? Is the Euro strategic at all– if so, in what way? Does it open new business opportunities? Or has it just been an operational nuisance? These questions form the subject of this paper, where we will focus on the *strategic* implications of the Euro for non-financial companies. We will not directly interfere with the macro-economic, or political debate (or only to the extent that policy should take account of the impact or implications of the Euro on strategic business issues[3]).

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[1] Spikes Cavell and Co, *"Eurocrash : Fear and Uncertainty in Euroland"*, with Peoplesoft, and Deloitte and Touche, November 1998
[2] PeopleSoft – Deloitte Consulting Survey results, presented during the '*Shared Services Executive Forum*', December 11 1998, Brussels.
[3] This paper is addressed to an academic and practitioners audience in the first place.

We address these questions against the background of our year-long research in a wide range of industries and companies on the development of European strategies and organizations[4].

First, evidence will be shown on how companies regard the Euro as strategic. Then, we will turn to the underlying strategic questions with special focus on what the Euro could mean for market and price convergence. We will discuss the potential for new value creation in an integrated European market. Finally we will argue that while the introduction of the Euro as such is not strategic from a corporate perspective, companies can make the Euro strategic, as a catalyst, in the context of the management of the overall European strategy process. We will warn against overextended expectations and the 'anti-strategic' potential of the Euro.

Is the Euro strategic?

While the operational impact of the Euro should not be underestimated (and we share the concern of recent reports, as mentioned above), the research question that lies underneath this paper is what the Euro means for corporate strategies in the European context.
Let us first look at what managers themselves say about this :

- A survey done by the European Accountants Federation (FEE)[5] concluded that only one out of two companies saw strategic implications of the Euro for their company. Strategy was only 10th on the list of priorities for adaptation to the Euro, far beyond 'accounting and financial reporting' (which was cited by 84% of the people surveyed as strongly affected by the Euro).
- Another recent report by the Economist Intelligence Unit[6] listed EMU only 5th on the list of driving forces behind European shared services restructuring (an important component for the development of pan-European strategies) and was cited by only 20% of the respondents.
- Yet another survey shows that the respondents do not view the Euro as a positive business opportunity[7].

« Most companies consider the Euro as a technical and operational issue in the first place. »

All these findings point in the same direction and are in line with our own, more casual, impressions out of exchanges with management teams in various industries. Most companies tend to consider the Euro as a technical and operational issue in the first place, and will hence devote their attention and effort to these aspects, rather than to the strategic implications.

One may find this surprising, or even alarming. Some observers indeed have pleaded for a broader understanding of the Euro implications. The CFO of one important European multinational complained about the isolation of the financial department in his company

[4] Based on about two dozen of in-depth and year-long industry and company case studies (most of which have been published), complemented with as many mini-cases and presentations or articles for international academic and practitioners audience (see references in back)
[5] See Financieel Economische Tijd, Sept 4, 1998, or on http://www.tijd.be under heading 'ondernemen'
[6] Krempel, M. "*Shared Services : a New Business Architecture for Europe*", Research report, Economist Intelligence Unit, September 1998.
[7] Spikes Cavell and Co, *"Eurocrash : Fear and Uncertainty in Euroland"*, with Peoplesoft, and Deloitte and Touche, November 1998.

when preparing for the post-Euro era[8]. He and some of his colleague-managers are warning that the Euro effects are not just felt in the finance department offices alone, but that the whole company should be involved.

Let us take a step back from this evidence and try to think through the strategic implications of the Euro introduction. In order to do this, we should ask ourselves how the conversion to a Single Currency changes the key strategic questions (or answers to these questions) that companies are facing up to :

1. How does the nature and structure of our industry look like and what forces are at hand in changing it? Particularly, what pressures for market convergence do we see in our industry and competitive landscape in the European scene?
2. What new opportunities for (or threats to) value creation and value capturing will arise at the company level? Particularly, what opportunities for increased efficiency and cross border segmentation can be expected in 'Euroland'?
3. How will the basis and sustainability of our competitive advantage vis-à-vis our competitors change in the Eurozone? What is the differential effect of the Euro on different types of players in our industry?

When thinking through these strategic questions and the impact of the Euro, we arrive at the conclusions that the effects of the Euro are not necessarily as overwhelming as some would like to make us believe, nor are they as obvious or general as simplistic slogans in the current debate seem to imply. We will now elaborate on the reasons underlying this conclusion.

The Euro and market convergence

In industry after industry, the million dollar question on the European scene has been since years : how much convergence do you have, do you want and will you get in your business in the future? On the one hand companies feel the pressure to internationalize and/or integrate their international operations, because of converging customer preferences and potential cost advantages (typically economies of scale) or opportunities to follow their customers internationally and serve them in international networks (the so called network benefits)[9]. On the other hand, numerous forces slow down market convergence and keep companies from reaping the above mentioned benefits. Customer preferences remain different because of social and cultural discrepancies in Europe, the cost advantages are lower because of structural barriers (legal, tax, social, language, etc) and the network benefits minimized. A constant analysis of the globalization/Europeanization and localization pressures in your industry and a continuous monitoring of the market evolutions are then necessary.

In the analysis of these pressures, it is important to go to the lowest level of *detail* possible : it might be that different functions or tasks in your company will be differently affected by the above mentioned global-local forces. In addition, it is key to take a *dynamic* view on these forces affecting your industry and company: the globalization pressures are certainly changing, while the barriers or localization drivers might fall. As a consequence of these continuous evolutions, *timing* issues play a key role.

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[8] CFO Europe, October-November 1998.

[9] This analytical framework is discussed in greater detail in P. Verdin and N. Van Heck, *Managing International Strategy : A European Perspective*, forthcoming.

In our research, we have observed many cases of expecting 'too much integration, too soon' : companies acted as if their business was global or European, but in fact the bulk of the business remained local in nature. For example : Federal Express was an early mover in the European package delivery business, delivering excellent services at competitive prices, only to realize that the parcel delivery business in Europe was mainly focused on intra-national delivery services, and was hence not sufficient to maintain the service level and infrastructure of Fedex. After a couple of years of significant losses, Fedex in early 1993 decided to retract and focus their European operations on the transatlantic services only.

The opposite is dangerous as well : too little integration too late might be unsustainable vis-à-vis the competitors. The Dutch truck manufacturer, DAF[10], had trouble facing up to competitors that had moved further in the internationalization and integration of their European activities. Hence it was not able to survive as the successful independent players it once was and went bankrupt in 1993. The restarted company, the New DAF, was sold to Paccar of the US in 1996.

It is all about monitoring the business, understanding what is going on, and adapting the international strategy accordingly. It is not because your business is today mainly local by nature, that it will still be in five years time. On the other hand, it is not because some of the globalization barriers fall or are believed to fall, that all of a sudden your business is global or European. There might still be considerable localization drivers.

Only a continuous in-depth analysis of the industry and market your company is operating in, at the right level of detail, will tell you how the nature of the business and competition is changing, and how fast it is going. This should allow you to set reasonable expectations in terms of the benefits reapable of internationalization and/or integration. Our research has allowed us to summarize the 5 key aspects for a good industry and market analysis :

Table 1 : How to analyze your business :
Here are 5 key aspects for a good industry and market analysis

1.	Be biased : question standardization and pan-European integration.
2.	Distinguish between level of convergence and rate of change
3.	Timing is key : avoid 'too much too soon' or 'too little too late'
4.	You need systems for continuous monitoring and scanning the environment
5.	Once you can see the benefits, it might be too late : you need a 'market vision' as well

[10] Verdin P. , de Haan, F., Ricart, J. and Thomassen, H., *The European Truck Industry in 1990 : Preparing for the Post-1992 Era* and *DAF in 1991 : Preparing for the Post-1992 Era,* case studies, IESE, 1991 in Ghoshal, S. ; Mintzberg, H. and Quinn, J.B. :"The Strategy Process", European Edition, Prentice Hall, 2nd edition 1995, p 137-168.

The question is how much weight the Euro is putting into this global-local balance in your industry and company. Although one should be careful generalizing, we tend to conclude from our research that this effect is minimal in most industries and markets. We fear that the expectations of the Euro effect on the market convergence might be overextended.

Overextended expectations

Many people seem to be expecting 'the world' of January 1999. It looks or sounds 'déjà-vu or –entendu' : the Euro 1999 hype resembles to the overextended expectations of a 'really unified market' in the post-1992 Europe.

The European Internal Market program aimed to eliminate some of the barriers for market convergence in Europe : European companies had often been found lagging behind their worldwide competitors in terms of competitiveness and profitability[11]. A Conference Board Europe[12] study confirmed that a significant amount of restructuring has taken place within Europe in the wake of the European Unified Market, believing that Europe 1992 would finally integrate the European market.

Having followed several companies and industries operating in Europe closely for years now, we have also observed many *disappointments* within companies with regard to the results obtained from their corporate restructuring and strategy/organization integration projects.
One reason for this disappointment we think might be the conclusion that the European market was not really as uniform as anticipated, and hence less or limited benefits of integration could actually be reaped.

- Although 1992 implied really important regulatory and policy measures to open up the markets in many sectors, with important de-regulation, liberalization, and opening up of borders; the effects of 1992 were generally overestimated. Several sources and studies came to the conclusion that the 1992 Delors Program did *not* change the (Euro)world the way it was expected :
  - A study from the European Commission indicated that although the expectations were that over one third of the economic benefits of the 1992 program would come from increased economies of scale, it has been argued that the amount of scale economies was lower than expected. The study suggested that with hindsight (much) less of these scale benefits actually have materialized[13].
  - A Eurostat business survey supported these findings by indicating that 53% of the companies surveyed admitted that the 1992 Internal Market program had no affect on their business.

  But if the impact of the Internal Market program was limited, we argue that the effect of the Euro on market convergence may turn out to be *even more limited.* After

[11] See European Commission, "*Situation Financière des Entreprises Industrielles (Financial Situation of Industrial Companies), Economie Européenne, Supplement A*", April 1996.
[12] Bleackley, M. and Williamson, P. , "The Nature and Extent of Corporate Restructuring with Europe's Single Market : Cutting through the Hype", *European Management Journal,* vol 15 (1997), n° 5 : 484-497.
[13] Commission of the European Communities,"*Study on the Extent of Realisation of Economies of Scale due to the Internal Market Programme*", 1996.

all, for most industries (except maybe financial services sector and directly related industries) it is in the first place a purely technical and 'accounting' change with implied IT and processing issues.

- The impression we have is that 1992 was not only overestimated in terms of the total effect, but at least in terms of the timing. One executive from a European company confirmed :

  "The question is when Europe 1992 will come. In some industries, Europe 1992 already happened in the mid 1980s, in some other it will only happen in the next century. As such Europe 1992 has only a symbolic value."

  Market convergence has not started with the Euro (which makes that companies should have thought about this and acted on it long before the Euro was implemented), nor will it end with the Euro (Europe is not one market, a lot of barriers, some of them more important than the currency, remain). This is a much larger problem. Karel Van Miert, European Commissioner observed recently :

  "Forty years after the signing of the Treaty of Rome and the European Community for Coal and Steel, we are on the verge of a real integrated European Market – for coal and steel.[14]"

"How long will it be before more Fiats are seen driving on the French roads than Renaults?"

The Euro is not going to make the European market integrated overnight! How long will it be before more Fiats are seen driving on the French roads than Renaults, even though the car manufacturing business is considered to be one of the most global? Europe is not Europe yet, even after the Euro : the real integration is in fact a long way off.

- For others the integration may *never* come :

  "On the one hand you have all the big dreams of the industry and on the other hand you have the dreams of the European authorities – and in reality you have the local situation." Eric Van Keerbergen, Coditel.

  "We glibly talk about a European system, but in reality we are talking about 15 sovereign states", Bryan Allworthy, Merril Lynch.

"The more important the January date seems, the more operational the Euro conversion is."

- By creating attention to and hype around the January 1 (1999 or 2002) date, one contributes to a dangerous kind of end-game fallacy[15]. Some observers or analysts are speaking as if all bets are off on January 1 1999 or 2002. Take positions before that date, and expect to see on that date or soon after it, who is the winner and who is the loser! This 'casino' view of business is not productive and deviates management from real strategic issues. The more important the January date seems, the more operational the Euro conversion is.

What is key is that companies realize that this tendency towards homogenization is an ongoing process that they should monitor and adapt their approaches accordingly. Even more complex and difficult are the organizational process issues developed below.

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[14] Address by Karel Van Miert, European Commissioner, at the opening of the MBA program, KULeuven, September 1997.

[15] This point has received only sporadic attention, see e.g. Financial Times, September 4 1997 : "Merger Gambit".

There are plenty of other forces at work in industries, on cost and market side : globalization of economy, evolutions in technology (a manager once said to us that he expects more price convergence from the internet, than from the Euro), Y2K, deregulation, regionalization of economies (EU, Mercosur, ASEAN, etc.), demographic evolutions, to name only the most important ones. And all of these affect a broad range of industries and companies, and indeed change 'the name of the game'. The effects of these forces on the degree of market convergence and the global-local balance in industries are real.

The Euro is a very small piece of this constantly changing puzzle. The net effect of introducing a single currency, amidst all these other evolutions, should therefore not be overestimated for non-financial companies[16]. A similar conclusion was drawn from a recent analysis of the expected Euro effect on different industries[17].

The Euro and price convergence

An often heard claim is that the Euro will speed up price convergence across Europe, sometimes called 'a key strategic implication' of the Euro. In the above mentioned survey of FEE, marketing and particularly pricing are number two on the list of focal areas for Euro adaptation (no surprise of course, since prices will have to be expressed in Euro in stead of local currency!) But what is in our interest is to know if this makes the Euro strategic : will the Euro on its own lead to increased price convergence across borders? The expectation (or fear for some) lives in numerous multinational corporations that the price differences within the Euroland will gradually disappear, and worse still, that prices will converge to the lowest level (the so-called pricing time bomb[18]).

Although the Euro-pricing debate has been going on for years now (e.g. in the context of the 1992 program), the question now is if we *really* should get homogeneous prices all over Europe because of the Euro? Let us think through what the Euro means for the price differences in different products and services.

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[16] Even for the financial sector, voices have been heard that the Euro effect is there more limited than some would like us to believe, like in Praet, P. and Wibaut, S. *"The Euro : What a Difference a Day Makes"*, paper for 21st Colloquium of Société Europée ne de Recherches Financières, Frankfurt, Oct 1998.

[17] Wall Street Journal Europe, January 4 1999 : "Advent of Euro unlocks Competitive Forces across many Sectors".

[18] A key contribution on this topic has been made by Simon, H. and Kucher, E. : "The European Pricing Time Bomb - and How to Cope with it ", in Haliburton, C. and Hünerberg, R. (ed.), *European Marketing: Readings and Cases*, Wockingham : Addison Wesley, 1993, 218-229.

- *Consumer products*

Let us look at a sample.

Table 2 : Prices of selected goods and services (in dollars)

	Belgium	France	Germany	Italy	Spain
1.5 liter bottle of Coca Cola	2.05	1.05	1.89	1.65	1.14
Big Mac	2.86	3.08	2.67	2.48	2.38
Liter of unleaded gasoline	0.93	1.03	0.87	0.94	0.73
Dry-cleaned men's shirt	3.68	4.57	2.43	3.75	2.92
Pair of Levi's 501 jeans	71.00	83.00	81.00	69.00	70.00
Compaq Presario 2240	1,316.00	1,348.00	917.00	1,208.00	1,267.00
One day rental car, Mercedes C	154.00	110.00	103.00	253.00	113.00
One hour translation	89.00	104.00	78.00	55.00	39.00

Source : Business Week, "Gaps the Euro may close", April 27, 1998.

Why do we have these price differences?

- The demand for certain products is depending on local conditions, like e.g. weather conditions (Coca Cola)
- The prices of certain products is heavily dependant on tax systems e.g. gasoline
- Customer preferences might change significantly across countries, e.g. Big Mac and jeans trousers
- Competition can allow for larger or smaller margins, e.g. computers.

These price differences have been existing (and been significant, for some products) for years. Consumers have been aware of them and have accepted them without an Euro. Now let us see : how many of these gaps will really be closed simply because of the Euro?

- Will the Euro change local conditions, like weather?
- Will tax systems harmonize around Europe because of the Euro?
- Will customer preferences be adapted?
- Will competition change once the Euro is there?

For years now customers have been able to buy a car in other European countries, but still, the Fiat Marea SX 1.6 liters sedan is priced ECU 16,692 (including taxes) in Belgium, and costs ECU 19,203 (tax incl.) in the Netherlands. Even for products where one would expect significant arbitrage and price sensitivity (for consumer durables, like cars), it looks grossly exaggerated to expect uniform Euro-prices from day one of the Euro calendar! It is hard to believe that the purchasing habits of Belgian or Dutch consumers will change, once they have an Euro. Research on this domain has indicated that the price differential will only be reduced or eliminated once the trade barriers, of which the importance is different from one industry to another, are really removed[19]. In addition, the EU exemptions for care distribution arrangements have nothing but sustained these price differences.

[19] Presentation by Frank Verboven on EMU, "*Price Competition and Market Structure*", during Centre for European Policy Studies Working Party, on Euro and Corporate Strategy, July 1998.

Let us take another example : one can buy toys from the same chain, like Bart Smit, in Antwerp (Belgium) and in Breda (Netherlands), only 40 kilometers away from each other. For quite some time, the toys have had dual pricing, one in guilders and one in BEF, of course only the BEF price has been valid in Belgium. The Belgian price is equal to the Dutch price multiplied by 20, although the exact exchange rate between Belgian Francs and Dutch Guilders has been 18.3x for years, only floating a couple of centimes (within the European Monetary System). Of course, when translating the Antwerp and the Breda price to Euros, the difference in price will become clearer, or will it? Either the prices will be equalized (which would be foolish for Bart Smit to do) or we will just have one price in each location (probably different from each other). The point is : customers have been able to compare the Bart Smit prices for years and they realize they could get the same toy cheaper in Breda. Should that mean that Bart Smit should decide to lower the Breda price (or even less likely increase the Antwerp price) as of January 1 1999 or 2002, because it will all be in Euros? Will the Belgian customer from that date on be willing to travel to Breda to get the toy cheaper there? That sounds silly. To some extent, the price differences for consumer goods have sustained because of the transportation costs, even more when these costs are relatively high in comparison to the overall cost of this type of purchase.

The assumption of price homogenization for consumer products grossly underestimates the sophistication of *consumers* and the existence of various differences across Europe beyond currency differences.
The broader point is that there are many real reasons of economic and strategic nature why prices for the same goods differ from one place to another. It would be foolish to assume that these reasons will disappear because of a single currency. If anything, transparency may decrease as most consumers will not at all be used to the role of the Euro and dual pricing (with their own national currency) will continue for some time.

"Transparency is only one tiny element responsible for existing price differences."

Transparency is only one tiny element responsible for existing price differences. The main reasons are the different cost and market structure and thus will not significantly change just because of the Euro. We can see this in the US market where despite the use of a single currency for years, price differentials still hold.

- *Business-to business products*

For business-to-business marketing (where transportation costs are relatively less important), it would be false to expect professional buyers only to 'notice' the price differences across countries, after the Euro got introduced. Professional buyers have been sophisticated for years : those buyers probably got to a point where they understand how many of the price differentials are really due to the different currencies (and have consequently squeezed producers to eliminate these differences) and how many flexibility producers have for lowering prices within the economic rationale. Will the Euro for those buyers and producers make as much of a difference as some people make us believe?

Research conducted by the European Commission[20] has confirmed that generally, the price dispersion in Europe has declined between 1985 and 1993. Potential causes of the price convergence in that time range was the increasing competition and globalization of the economy. The same research has indicated that this decline in price dispersion however has slowed between 1993 and 1996, notwithstanding the 1992 program and the high expectations that price convergence would be sped up, rather than slowed down. Various factors have been pinpointed in this report to explain the remaining price differences in 1996 : structural factors (preferences, tastes, transportation costs), behavioral (market segmentation, product differentiation), policy reasons (regulation, taxation). Will the Euro have any effect on these factors?

Of course, from a public policy standpoint, we could not agree more that if the Euro introduction will act as a catalyst or a stick to force other substantial changes in integration (tax, social, legal, etc.), the real underlying differences responsible for some of the cross-border price differences could start to disappear. But for this, we need to first get some of these substantial changes beyond 1992 or beyond what we have seen so far. In that sense, the Euro can act as a trigger or catalyst at the public policy level to push through other (more important?) regulatory measures (cf. The Euro as a catalyst at the corporate level, below).

While the Single Currency might increase the transparency of the prices in Europe, it may make price differences less acceptable from a social and political point of view. Consumer organizations will undoubtedly increase the pressure on producers to eliminate 'unfair' price differentials, but we should realize that much of these differences are due to various factors, external to the Euro. Differences in transportation costs, different taxation, differences in competitive situation, different preferences, to name only a few, will remain having an impact on prices and their different levels, and they should. The risk is even there that the political pressure will force companies to uniformize prices beyond economic logic.

"Even within a fully integrated market, regional price differentials will continue to exist."

The conclusion from the European Commission research goes even further by saying that : "Even within a fully integrated market, regional price differentials will continue to exist.". This seems to make sense, but is often overlooked in the current debate. It is fair in that context to refer to the US example : they have been working with a single currency for years, and still considerable price differences exist, mostly for good (market-conform) reasons.

Our argument implies that companies should not rush into price homogenization, because of a switch to the Euro. Companies that do so, might price sub-optimally and lose opportunities for price discrimination, and jeopardize their own profitability, in the extreme case (the 'too much, too soon' trap). If companies set homogeneous prices or will be forced to lower the price differentials, the danger is that they might even go against the economic rationale, which says that the price differences that are explained by economic relevant factors are justifiable and should therefore be maintained.

[20] Presentation by Adriaan Dierx, DGII, European Commission, "*Market Integration and Price Convergence*", during Centre for European Policy Studies Working Party on 'Euro and Corporate Strategy', July 1998.

The Euro as opportunity for new value creation

Having said all this, is there no chance for the Euro to open new opportunities for value creation? The Euro may make company management better aware that market segmentation, and price discrimination along pure geographic dimensions are increasingly becoming obsolete. The underlying rationale for this evolution, a converging market, is however not depending on the introduction of a new currency. If the Euro speeds up this tendency, it is only because the increased transparency forced companies to do what they should do or should have been doing in any event. The Euro thus only acts as a catalyst in this process (see below). Price discrimination and market segmentation will continue to take place, but maybe less on purely geographic dimensions. It is however our expectation, that if that is the case, this change will not happen overnight. This type of convergence in one way and divergence in another will take a long time to be operational and effective.

More importantly, it should not be forgotten that market integration (when and if it really becomes a reality) should not eliminate discrimination or segmentation (in prices e.g.), on the contrary, it might exactly unleash opportunities for *more* segmentation or discrimination rather than less -but on 'economic' relevant criteria, rather than (artificial?) geographic ones. The Euro can contribute to this development and this paper can be an illustration of how at least it helps fostering the debate about and hopefully also the insights into these underlying issues (again the Euro as catalyst). The Euro might hence have some strategic consequences because it makes companies aware of more rather less chances for customer responsiveness.

"If the Euro is going to harmonize your strategy and pricing in particular, what have you been waiting for?"

It is important to realize that market convergence (and as such maybe also the Euro), will have an effect on value creation opportunities (see second strategic question above), but then in the opposite direction than some people are trying to make us believe. Some companies seem to foolishly run into a 'one size fits all' strategy, because of the Euro. This is false : if the Euro is going to harmonize your strategy and pricing in particular, what have you been waiting for? It probably means that your pricing and strategy was previously sub-optimal.

In addition, a standardized strategy misses the real message that market convergence allows for better segmentation rather than requires necessarily pure standardization. Market convergence will allow companies to (better) serve cross border customer segments, that could not economically be served before. We should prepare for more, not less complexity, because that is why a lot of value creation can take place.

So is the Euro *really* strategic?

We therefore warn against simplistic slogans and generalizations because they overlook the need for nuance and company specific answers. In principal, we can not answer the question whether the Euro is strategic, for your company. It requires a company specific answer to be formulated after a careful and detailed analysis of your industry and company. In this exercise, management should try to should look at the broader picture of changes in the European market forcing for more integration on the one hand and enabling close customer responsiveness on the other hand.

The Euro and market convergence might have a differential impact on companies in your industry : the Euro could mean different things for small companies than for larger companies, for European or non-European companies, established or newcomers.

Nevertheless, we anticipate that for non-financial companies, chances are high that the Euro effect is negligible and is as such not going to make a significant difference on the strategy side. Except of course, if the Euro is properly used as a catalyst.

The Euro as a catalyst

Although the actual (positive) impact of EMU on corporate strategies seems greatly overdone to us, top management can use the Euro as a *catalyst* for discussing and speeding up or jumpstarting major cross border strategy and organizational integration that is long overdue. Integration is then taking place not *because* of the Euro. The Single Currency introduction is a *catalyst* to start (thinking about) the integration[21] or to unlock the blocked integration process. Although we think the Euro *is* not strategic, it can be *made* so.

« Although we think the Euro *is* not strategic, it can be *made* so. »

The better way in our view to make the Euro 'strategic' is by using it as a *catalyst* for European strategy and organizational enhancement.

- The introduction of the Euro can help to bring forward the strategic re-evaluation and discussion on how much integration and internationalization is required to be successful (and to raise the strategic questions mentioned above). The question how much European coverage or European strategy and organization is needed, has in our view barely changed because of the Euro. The Euro just helps to bring it up or revisit it.
- Or it can be used as a trigger to push the internal integration process that has not really taken off so far or has got stuck along the way. For instance, the proactive companies have already started evaluating what organization 'learning by doing' they have got out of their Euro team experience.

For excellent companies that have been managing their integration *process* well, the Euro should not make much of a difference[22]. They have started the debate long before the Euro and have managed the process of integration successfully. Along these lines, a Hewlett Packard manager stated about the Euro : "I find it too easy, so I wonder if I am doing something wrong. It is a no-brainer for us[23]". This seems to make a lot of sense to us.

For those companies however that have not thought about a European strategy or succeeded to make it happen, the Euro can be made strategic if it is used

- To re-evaluate their overall strategic position, and to re-consider their (pan-) European strategy and organization in particular,
- Or to get a long overdue or slowing integration process moving again.

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[21] See also presentation Dr. Rainer Saezle, Nestle, Center for European Policy Studies Working Party on Euro and Corporate Strategy, July 1998.
[22] We have studied some in greater detail, like e.g. Procter and Gamble Europe, 3M Europe.
[23] Krempel, M. "*Shared Services : a New Business Architecture for Europe*", Research report, Economist Intelligence Unit, September 1998.

Managing the process

Using the Euro as an enabler is fine, as long as you know what you are doing and when it is part of a process that is properly managed at the highest level. Otherwise, management risks a 'the tail wagging the dog' syndrome, whereby it uses the Euro (or say Euro-pricing) to get the bigger debate starting. It is important to manage the consequences of it properly. For instance, the financial services integration within part of Hewlett Packard Europe in the wake of the introduction of the Euro, was being considered an enabler within the company itself to move the integration process further[24] and managed accordingly.

Our research in various companies from different industries, has made us conclude that company integration is a long process which should be carefully managed. Even when the benefits of integration are conceptually rather obvious, we have observed many cases where the management failed to (fully) reap these benefits, because they mismanaged this process[25]. The transition from a domestic to an international player, or from a multi-national to a pan-European player, requires a lot of time and effort. The following quote confirms :

> *"Few chose the 'small is beautiful' route, preferring to develop into large pan-European players. They grossly underestimated however the cost and time of reshaping the portfolio. All in all, it took them twice as long and the operation was consequently twice as expensive as they had anticipated."* Bain and Company Newsletter, September 1995.

We have observed companies that took more than 20 years[26] to set-up an integrated strategy and organization, and have done so by a strong vision combined with persistent effort and a willingness to learn from trial and error. They finally succeeded because they realized how important it was to pay attention to the management of the process. They saw the complexity of making it happen : it was not just a matter of moving from situation A to situation B. This move from A to B changed intrinsically the way business was done and went to the heart of the business.

This research has allowed us to draw some general conclusions in terms of key success factors in the management of this process. These elements have also been corroborated in recent research about the increasingly important area of shared services in Europe[27].

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[24] Presentation of HP senior manager at the '*Shared Services Executive Forum*', December 11 1998, Brussels.

[25] Verdin, P., De Koning, A. and Williamson, P. W., "So you want to Integrate Europe : How to Manage the Process?", *European Management Journal*, vol 15 (1997), n° 5 : 252-265.

[26] Long as this may seems, it is still more optimistic than the estimate of the former CEO of Pirelli who said "Twenty, 30 or 50 years from now, European companies will be multinationals in the basic sense of the word."

[27] Krempel, M. "*Shared Services : a New Business Architecture for Europe*", Research report, Economist Intelligence Unit, September 1998, p. 87-90.

Table 3 : How to manage the integration process :
Here are 10 key aspects we have found to be of critical importance for success

1. You need a shared vision and top commitment.
2. Pace the integration process properly: go slow if :
   * you have the time and are prepared to experiment and learn
   * you have secured and shared a long-term vision and sustained commitment
   but do not expect too much too soon, build critical mass and do not get stuck in the middle!
3. go quickly if :
   * the result is more urgent than the process (i.e. in externally imposed crisis) or the path has been cleared long beforehand (i.e. *create* internal crisis)
   * you are sure you do not want to go back to your starting point anyhow
   but be sure to include in the change all critical dimensions at once.
4. Identify the integration dimension(s) crucial for long term success for the business or industry (these might change over time).
5. Lead integration initiatives on many dimensions of the business to build spillovers and critical mass.
6. Include initiatives with quantifiable and short term integration benefits.
7. Build the required culture, support (including reward systems, etc.) for the integration to function.
8. Involve and provide demonstrable benefit to the local management.
9. Keep options open and maximize learning potential but be decisive and make clear choices when conflicts arise.
10. The best vision is rooted in sound analysis :
    * adapt the integration to the appropriate degree of market convergence.
    * continuously ask : where is the economic benefit? And are we getting it?

Source : P. Verdin et. al., European Management Journal, July 1997

It is not enough to tell people how strategic the Euro is, and then simply ignore the management of the integration process. A number of side conditions need to be in place.

If the Euro is turned into a strategic project, it should also be conducted at the right level in the company organization. When the Euro is an excuse for re-thinking the business system and international approach and strategy, it should not be left in the hands of staff people, who happened to be responsible for the technical aspects of the Euro, only. We have seen a company that initially set-up a Euro-team (with staff people, including accounting, finance, etc.), but soon split it up in two sub-projects, dealing with the technical or the strategic aspects of the Euro. The strategic aspects were indeed important in the company, because the European strategy had not been thought over in-depth and implemented (as) successfully (as possible) so far. But the problem was that the Euro-project team was supposed to lead this type of strategic re-evaluation of the business. If Euro is used as a catalyst to get the process going, top management should clearly take its responsibility and commit to and lead the integration and re-evaluation. The top management should make sure that :

- The expectations are well managed and realistically formulated
- The different trade-off's that will undoubtedly be required, are made. It is like Claude Mancel, Vice President Research and Development P&G Europe, witnessed with regard to the integration process: *"It was the first time we had to make decisions that were good for all of Europe and bad for particular individual countries."*
- The required resources are dedicated to make the integration happen
- The process of integration is constantly monitored, energized and followed up. In our research, it has shown that top commitment and vision from the top on the market is really making a difference in the chances for success.

- A long term perspective is taken : a long term view in this type of exercises is another factor that often determines success or failure. Although it might be good to look for some short term benefits (so called 'early wins'), it is key to take the long term view. If one realizes that this type of integration projects has taken several years (up to even 20 years) in some companies, it should be clear that an overly narrow time frame can kill the project, unless the necessary conditions are in place to let the shock-therapy work. Often, this type of 'big bang' approach is only possible when the pressure on the market has become untenable. Even in this scenario, it has proven that although the majority of the project can be finished in a very short time period, the longer term follow-up on the company position in the market remains key. In our research it has shown that the pace of the integration process influences its chances for success (either shock therapy or slow and steady).

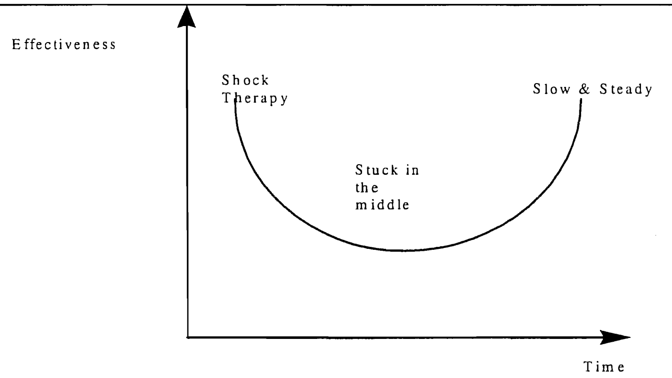

Figure 1

"Shock Therapy" vs. "Slow and Steady"

Careful so the Euro does not become anti-strategic

Companies should constantly think about (and rethink) their international position, strategy and organization. The Euro can serve as a trigger to do this or as a way to get things moving in the company. Let us warn however for some possible dangers :

- The Euro can *distract* from thinking about international strategy. In that case, the Euro is not only not strategic but even *anti-strategic*. Some companies are too busy getting their systems adapted to the Euro, and are focusing time and resources on getting ready for the technical aspects of the Euro conversion. Even to the extent that they overlook the real strategic issues in their business.
  - The shared services survey confirms that the opportunity costs of the resources dedicated to Euro conversion are not negligible : "Frequently, because of the immense resources needed for these implementations, companies have been unable to pursue other strategic growth initiatives"[28]. The concern grows that the Euro keeps some companies away from the real strategic questions and management challenges, and other real new business opportunities.

[28] Krempel, M. "*Shared Services : a New Business Architecture for Europe*", Research report, Economist Intelligence Unit, September 1998, p. 78.

- The estimated cost of the Euro conversion in the insurance industry for example accounts for £5 billion according to the Financial Times[29]. This cost is for most industries a big one time write-off against which the benefits are only small, unsure and spread out in the future.
- A study of Deloitte and Touche on the impact of the Euro on the retail sector[30] confirmed that there will be a gap in timing between the actual costs (short term and high) and the benefits (long term and believed to be outweighed by the substantial costs). Can you imagine what would happen if companies dedicated this kind of resources to a strategic re-evaluation and process management in their business?

- The danger of using the Euro to get 'things going' is that it overly emphasizes January 1999 or 2002 date and focuses systematically on the E-day as the final deadline. As mentioned before, the real strategic question about the degree of market convergence will not become relevant or irrelevant once the Euro is there, on the contrary. If companies only have eye for the short term questions (focused on the Euro), they might lose sight on what is really important : a long term view on how the industry and company position is evolving as we have explained above. If the Euro prevents companies from taking this *long term perspective*, the whole exercise might turn out to be anti-strategic.

« If a certain acquisition or merger did not make sense before we had the Euro, why would it then all of a sudden be justified because of a new currency ? »

- Another danger are *unwarranted mergers and acquisitions and other restructurings*. The expectations of the Euro are high and many deals, mergers and acquisitions, and restructuring are done in anticipation of EMU, as if the Euro is all of a sudden going to change the way business is done in their industry and customers buy. Embarking on integration projects because of the Euro, one should realize that 1999 is most likely not going to shake up the fundamentals and economics of their industry. Except possibly as a self fulfilling prophecy : if all players believe that the Euro is going to change their business and the competitive game, and start acting according to it, you indeed get a different industry structure and competitive game at the end of the day. But sooner or later, we have to come back to reality : if a certain acquisition or merger did not make sense before we had the Euro, why would it then all of sudden be justified because of a new currency?

Conclusion

Convergence is certainly taking place in the European market, but it seems to take much longer than anticipated. That is because differences across borders and barriers for integration are far more complex than those resulting from different currencies. Managing the complex strategic and organizational challenges implied are much more time consuming. This is not to say that market convergence should be slowed down or that companies should give up integrating their strategies. On the contrary, it only pleads for realism in managing the process and the expected outcomes. We should definitely

[29] See article Financial Times, March 25 1998 : "Uninsured for Euro's survival".
[30] Deloitte and Touche , *Euro : Costs and Retail Changeover Challenge*, November 1997.

continue the road we have entered, and any excuses for pushing the market convergence and company integration, like the Euro, are of course welcome.

"If the Euro really makes such a big difference for you, chances are that your are (or should be) in trouble anyway!"

Intrinsically, the impact of the Euro on strategies however, looks limited. Let us state this a bit more provocatively : if the Euro really makes such a big difference for you, chances are that your are (or should be) in trouble anyway! It means that either you are unprepared operationally for the Euro or your strategy was grounded on a very weak basis. It is highly unlikely that the Euro only will really make you less (or more) competitive, and if it does, it probably means that your company is (relatively) un-competitive anyway, even without an Euro (or that you missed out on already previously emerging business opportunities). Grand new business opportunities are not likely to open up overnight.

What one needs to do, in any event, is to constantly re-evaluate its industry and position in it. But the process of reflecting on and managing how you should compete in the changing European market and competitive environment should not be affected by the date of January 1 1999 or by January 1 of any other year!

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